

Exam

Name\_\_\_\_\_

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the instruments below is an exchange-traded one? 1) \_\_\_\_\_
- A) Bank deposit. B) Commercial bills.  
C) Listed shares. D) Swaps.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 2) Which of the following is NOT true of a financial market dealer? 2) \_\_\_\_\_
- A) Quotes two-way prices.  
B) Acts as a market maker.  
C) Trades only on behalf of others, never on their own account.  
D) Can be an individual or company.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 3) An example of 'direct financing' is: 3) \_\_\_\_\_
- A) Woolworths making a share issue through the stock exchange.  
B) Chad buying a surfboard using his credit card.  
C) Qantas buying aviation fuel using a bank overdraft.  
D) Telstra taking out a corporate loan from a bank.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 4) The allocative role of financial markets involves: 4) \_\_\_\_\_
- A) addressing the needs of the poor and disadvantaged.  
B) selecting appropriate salary levels for financial employees.  
C) distributing currency through banks' branch networks.  
D) efficiently distributing scarce funds between competing uses.

Answer: D

Explanation: A)  
B)  
C)  
D)

- 5) Which of the following is the tool by which financial markets allocate funds across alternative uses? 5) \_\_\_\_\_
- A) Bank fees. B) Interest rates.  
C) Commodity prices. D) Automatic teller machines.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 6) On the same day, Julia sells a 2001 model Commodore for \$19,000 and buys another one in the same condition for \$16,000. This is an example of: 6) \_\_\_\_\_
- A) intermediation. B) short-selling.  
C) arbitrage. D) speculation.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 7) Which of the following institutions is NOT responsible for the prudential regulation of banks' and depositors' protection? 7) \_\_\_\_\_
- A) RBA. B) APRA. C) ACCC. D) ASIC.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 8) Which of the following is NOT a benefit from financial intermediation? 8) \_\_\_\_\_
- A) Spreading of risk. B) Saving on bank fees.  
C) Economies of scale. D) Improved liquidity.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 9) Which of the following is an example of an exchange-traded market? 9) \_\_\_\_\_
- A) Interest rate swaps. B) Bank loans.  
C) Stock exchange. D) Foreign exchange.

Answer: C

Explanation: A)  
B)  
C)  
D)

10) The role of financial markets is to:

- A) produce goods and services.
- C) transfer funds from lenders to borrowers.

- B) conduct fiscal policy.
- D) record statistics for official use.

10) \_\_\_\_\_

Answer: C

Explanation: A)  
B)  
C)  
D)

11) Which of the following best describes a financial sector transaction?

- A) A firm supplying goods to a client on terms of 90 days.
- B) A consumer buying a car and paying cash.
- C) A farmer producing wheat and selling it to a bread maker.
- D) A bank lending a sum to a customer.

11) \_\_\_\_\_

Answer: D

Explanation: A)  
B)  
C)  
D)

12) A 'surplus economic unit' is one that:

- A) saves more than the national average.
- C) saves less than it invests.

- B) saves less than the national average.
- D) saves more than it invests.

12) \_\_\_\_\_

Answer: D

Explanation: A)  
B)  
C)  
D)

13) The sector holding the largest share of debt securities on issue in Australia is:

- A) financial corporations.
- C) private non-financial sector.

- B) foreigners.
- D) government.

13) \_\_\_\_\_

Answer: A

Explanation: A)  
B)  
C)  
D)

14) It is important that a secondary market be liquid so that:

- A) loans are guaranteed.
- B) large transactions will not have an impact on the price.
- C) expensive dealers are not required.
- D) all of the above.

14) \_\_\_\_\_

Answer: B

Explanation: A)  
B)  
C)  
D)

15) The 'secondary market' is where:

15) \_\_\_\_\_

- A) second-hand goods like cars and antiques are exchanged.
- B) banks provide 'top-up' loans to customers with a first loan.
- C) investors exchange their financial securities with other investors.
- D) none of the above.

Answer: C

Explanation: A)  
B)  
C)  
D)

16) Which of the following does NOT use an over-the-counter market?

16) \_\_\_\_\_

- A) Shares.
- B) Houses.
- C) Foreign exchange.
- D) Swaps.

Answer: A

Explanation: A)  
B)  
C)  
D)

17) The transfer of funds between ultimate lenders and ultimate users via deposit-taking institutions is known as:

17) \_\_\_\_\_

- A) direct financing.
- B) dissaving.
- C) intermediation.
- D) hedging.

Answer: C

Explanation: A)  
B)  
C)  
D)

18) Market liquidity is mostly a function of:

18) \_\_\_\_\_

- A) an asset's intrinsic value.
- B) government stamp duty.
- C) whether derivatives are available.
- D) the volume of turnover of an asset.

Answer: D

Explanation: A)  
B)  
C)  
D)

19) Liquidity is affected by an asset market's:

19) \_\_\_\_\_

- A) depth, breadth and resilience.
- B) depth and breadth only.
- C) breadth and resilience only.
- D) depth only.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 20) In an arbitrage transaction, the average proportion of the transaction price that involves risk is: 20) \_\_\_\_\_  
A) 50%. B) 0%. C) 100%. D) 80%.  
Answer: B  
Explanation: A)  
B)  
C)  
D)
- 21) When investors purchase Commonwealth Bank shares in a public offering, it is an example of the 21) \_\_\_\_\_  
\_\_\_\_\_ market.  
A) derivatives B) primary C) secondary D) bond  
Answer: B  
Explanation: A)  
B)  
C)  
D)
- 22) The difference between dealers and brokers is that: 22) \_\_\_\_\_  
A) interest earnings of brokers are not taxed.  
B) dealers quote to buy or sell, while brokers only sell.  
C) brokers locate buyers for sellers and vice versa.  
D) both A and C.  
Answer: C  
Explanation: A)  
B)  
C)  
D)
- 23) Properly used, the term 'investment' means: 23) \_\_\_\_\_  
A) buying a quality consumer item whose brand is respected.  
B) depositing money in a bank account or similar vehicle.  
C) the acquisition of physical plant and equipment to produce goods and services.  
D) all of the above.  
Answer: C  
Explanation: A)  
B)  
C)  
D)
- 24) In designing regulatory frameworks, the costs of regulations are: 24) \_\_\_\_\_  
A) the costs created by customers' reactions to changes in relative prices.  
B) costs of regulators.  
C) compliance costs.  
D) all of the above.  
Answer: D  
Explanation: A)  
B)  
C)  
D)

- 25) The study of financial markets and institutions: 25) \_\_\_\_\_  
A) looks at how households and businesses with surplus funds lend to others who need to borrow.  
B) is an exact science.  
C) is focused on the consumer.  
D) is concerned with what goods business produces and in what quantities.  
Answer: A  
Explanation: A)  
B)  
C)  
D)
- 26) Which of the following protects depositors? 26) \_\_\_\_\_  
A) Disclosure requirements. B) Prudential regulation.  
C) None of the above. D) Both A and B.  
Answer: D  
Explanation: A)  
B)  
C)  
D)
- 27) Which of the following markets exist in Australia? 27) \_\_\_\_\_  
A) Cash and debt market. B) FOREX.  
C) ASX and SFE. D) All of the above.  
Answer: D  
Explanation: A)  
B)  
C)  
D)
- 28) The difference between the selling and buying prices quoted by market makers is: 28) \_\_\_\_\_  
A) the liquidity margin. B) the yield.  
C) the spread. D) the tax benefit.  
Answer: C  
Explanation: A)  
B)  
C)  
D)
- 29) A university student has a part-time job. She gets this week's pay and puts \$100 into her bank account. Which type of asset is this? 29) \_\_\_\_\_  
A) Deposit. B) Collectible. C) Equity. D) Cash.  
Answer: A  
Explanation: A)  
B)  
C)  
D)

30) Companies borrow from households by:

- A) selling shares to them.
- C) none of the above.

- B) indirectly borrowing from banks.
- D) A and B.

30) \_\_\_\_\_

Answer: D

Explanation: A)  
B)  
C)  
D)

31) Which of the following is INCORRECT?

- A) A market maker is an entity which stands ready to buy or sell securities.
- B) The secondary market is the issue of securities to a single private investor.
- C) The primary market is where investors purchase securities from the issuer or its representative.
- D) All of the above.

31) \_\_\_\_\_

Answer: B

Explanation: A)  
B)  
C)  
D)

32) What is meant by the term 'dissaving'?

- A) Getting a poor rate of interest on your investment.
- B) Consuming more than you earn.
- C) Being a surplus economic unit.
- D) Withdrawing money from your bank account.

32) \_\_\_\_\_

Answer: B

Explanation: A)  
B)  
C)  
D)

33) The term 'short-selling' refers to:

- A) disintermediation using the primary market.
- B) dissaving by selling shares.
- C) borrowing by promising to repay a security rather than a sum of money.
- D) borrowing without a bank.

33) \_\_\_\_\_

Answer: C

Explanation: A)  
B)  
C)  
D)

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

34) Swaps are an example of a financial instrument that is always exchange-traded and never traded over-the-counter.

34) \_\_\_\_\_

Answer: True  False

Explanation:

- 35) Australian companies that have specifically set aside a proportion of their raising for individual investors include Woolworths, Qantas and Telstra. 35) \_\_\_\_\_  
Answer: ☒ True ☐ False  
Explanation:
- 36) An important objective of regulation is to maintain systemic stability. 36) \_\_\_\_\_  
Answer: ☒ True ☐ False  
Explanation:
- 37) 'Short-selling' is accomplished whenever an overseas participant is involved in a transaction. 37) \_\_\_\_\_  
Answer: ☐ True ☒ False  
Explanation:
- 38) Liquidity in the share market is doubly important because ordinary shares have no maturity date and can only be converted to cash through selling to other investors. 38) \_\_\_\_\_  
Answer: ☒ True ☐ False  
Explanation:
- 39) Around four in every ten Australian households owns shares. 39) \_\_\_\_\_  
Answer: ☒ True ☐ False  
Explanation:
- 40) Governments are typically the main parties to raise funds using private placements. 40) \_\_\_\_\_  
Answer: ☐ True ☒ False  
Explanation:
- 41) When agents put their money with fund managers who invest it on their behalf, it is an example of indirect financing. 41) \_\_\_\_\_  
Answer: ☐ True ☒ False  
Explanation:
- 42) Over-the-counter markets are characterised by open competitive bidding. 42) \_\_\_\_\_  
Answer: ☐ True ☒ False  
Explanation:
- 43) The ACCC retains its role in encouraging competitiveness, which means that it continues to be responsible for the sensitive issue of mergers and acquisitions in the banking industry. 43) \_\_\_\_\_  
Answer: ☒ True ☐ False  
Explanation:
- 44) Arbitrage is defined as a sale of securities between non-residents and residents. 44) \_\_\_\_\_  
Answer: ☐ True ☒ False  
Explanation:
- 45) The market in which holders of securities can on-sell them to other investors is known as the secondary market. 45) \_\_\_\_\_  
Answer: ☒ True ☐ False  
Explanation:



- 46) A major advantage of direct financing is the ability to transform assets. 46) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 47) An example of a non-financial asset is life insurance. 47) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 48) Financial markets are best studied by listing facts and figures. 48) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 49) Fund managers primarily invest in equities, debt securities and property. 49) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 50) The major household asset is superannuation. 50) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 51) The equation for the dealer's spread equals sell price minus buy price. 51) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 52) Funds flow in the economy from deficit units to surplus units. 52) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 53) Intermediaries offer the advantage of spreading risk across a number of counterparties. 53) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 54) Retired people tend to dissave. 54) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 55) According to the HILDA survey, the percentage of Australian households holding HECS is 13%. 55) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 56) The flow-of-funds matrix was affected by the GFC. 56) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 57) A major difference between superannuation funds and traditional intermediaries is that units in a managed fund tend to be illiquid. 57) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:

- 58) If a household with an income of \$125 consumes \$88 and invests \$26, its financial surplus available for lending to the financial system equals \$37. 58) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 59) A useful way to distinguish between direct and indirect financing is the number of assets that are created in the process. 59) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 60) If a household consumes more than its income, it is dissaving. 60) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 61) Typically, only large corporations with international credit ratings can use the over-the-counter market. 61) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 62) The iron law of unintended consequences says that regulations will have effects beyond those intended. 62) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 63) Consumer durables such as cars and TVs are classed as household 'assets'. 63) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 64) Companies with strong financial fundamentals have been bypassing banks and borrowing by issuing debt securities of their own. 64) \_\_\_\_\_  
Answer: ☒ True False  
Explanation:
- 65) Examples of financial intermediaries are banks, the stock exchange and building societies. 65) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:
- 66) Companies never borrow from households. 66) \_\_\_\_\_  
Answer: True ☒ False  
Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 67) Outline the difference between surplus and deficit economic units.  
Answer: A surplus unit saves more than it invests, lends to other units and issues financial claims. A deficit unit saves less than it invests, borrows from other units and accepts financial claims. A given household, company or government may change from surplus to deficit unit several times during its life cycle.

68) 'Financial intermediaries add very little economic value, compared with direct financing.' Critically evaluate this statement.

Answer: Your answer should begin by defining an intermediary. Next, explain the advantages intermediaries offer. Asset transformation has several facets and you should give details in turn of maturity, quality and denomination transformation respectively. Maturity transformation allows customers to make short-term deposits and draw long-term loans. Quality transformation is when the good credit rating of banks is made available to customers. Denomination transformation involves an intermediary aggregating the funds of many small depositors and lending to a large project. Further benefits of intermediation are spreading of risk, reduced transactions costs, economies of scale and payments convenience.

69) What is 'market liquidity' and what factors affect it?

Answer: Liquidity refers to the ease with which securities can be traded without affecting their price. Volume of turnover is an important factor. Liquidity is affected by market depth (the market's absorption of temporary imbalances), breadth (that securities prices are competitively determined), and reliance (the ability of the market to recover from major shocks).

70) In your own words, what is short-selling and how can it be accomplished?

Answer: Short-selling is selling a security you do not yet own. It can be accomplished by borrowing a security, creating an obligation to the vendor at some future market price, then selling the security to a third party at today's market price. The aim is to profit from a fall in the price of the security between today and a future date.

Answer Key  
Testname: C1

- 1) C
- 2) C
- 3) A
- 4) D
- 5) B
- 6) C
- 7) A
- 8) B
- 9) C
- 10) C
- 11) D
- 12) D
- 13) A
- 14) B
- 15) C
- 16) A
- 17) C
- 18) D
- 19) A
- 20) B
- 21) B
- 22) C
- 23) C
- 24) D
- 25) A
- 26) D
- 27) D
- 28) C
- 29) A
- 30) D
- 31) B
- 32) B
- 33) C
- 34) FALSE
- 35) TRUE
- 36) TRUE
- 37) FALSE
- 38) TRUE
- 39) TRUE
- 40) FALSE
- 41) FALSE
- 42) FALSE
- 43) TRUE
- 44) FALSE
- 45) TRUE
- 46) FALSE
- 47) FALSE
- 48) FALSE
- 49) TRUE
- 50) FALSE

Answer Key

Testname: C1

- 51) TRUE
- 52) FALSE
- 53) TRUE
- 54) TRUE
- 55) TRUE
- 56) TRUE
- 57) TRUE
- 58) FALSE
- 59) TRUE
- 60) TRUE
- 61) FALSE
- 62) TRUE
- 63) TRUE
- 64) TRUE
- 65) FALSE
- 66) FALSE
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- 70) Short-selling is selling a security you do not yet own. It can be accomplished by borrowing a security, creating an obligation to the vendor at some future market price, then selling the security to a third party at today's market price. The aim is to profit from a fall in the price of the security between today and a future date.